

MUSKEGON HOUSING COMMISSION
MUSKEGON, MICHIGAN

FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004
AND
REPORTS ON INTERNAL CONTROL AND
COMPLIANCE

AUDITING PROCEDURES REPORT

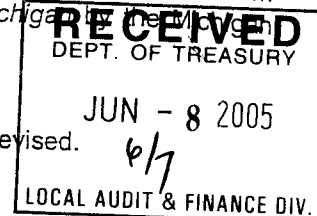
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Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <i>Muskegon Housing Commission</i>		County
Audit Date <i>8/30/04</i>	Opinion Date <i>2/24/05</i>	Date Accountant Report Submitted to State: <i>6/1/05</i>		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan, as required by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.



We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✗
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) <i>Barny E. Gaudeske, CPA, PC</i>			
Street Address <i>1107 E. 9th Street</i>	City <i>Traverse City</i>	State <i>MI</i>	ZIP <i>49886</i>
Accountant Signature <i>Barny E. Gaudeske, CPA</i>			

MUSKEGON HOUSING COMMISSION
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INTRODUCTION

Barry E. Gaudette, CPA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

1107 East Eighth Street
Traverse City, Michigan 49686
(231) 946-8930
Fax (231) 946-1377

Independent Auditor's Report

Board of Commissioners
Muskegon Housing Commission
Muskegon, Michigan

We have audited the accompanying statement of net assets of the Muskegon Housing Commission, Michigan (a component unit of the City of Muskegon) as of September 30, 2004, and the related statements of revenues, expenses, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Housing Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Muskegon Housing Commission, Michigan, as of September 30, 2004, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2005 on our consideration of the Housing Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Muskegon Housing Commission
Independent Auditor's Report
Page Two

Management's Discussion and Analysis is not a required part of the financial statements, but is supplementary information the Government Accounting Standards Board requires. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion thereon.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Financial Data Schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Housing Commission. The accompanying Schedule of Expenditures of Federal Awards, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Housing Commission has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as of September 30, 2004.

Sandy E. Hurd, CPA, PC

February 24, 2005



MUSKEGON HOUSING COMMISSION 1080 Terrace Street • Muskegon, MI 49442 • 231•722•2647 • Fax 231•722•9503

email: mhc1823@aol.com

This discussion and analysis of the Muskegon Housing Commission's financial performance should be read in conjunction with the auditor's opinion letter and the financial statements.

Entity-Wide Statements

The combined financial statements show, in one place, all of the Commission's operations. Our statements are prepared on the accrual basis of accounting, which is similar to that used by most businesses. Under this method, all revenues and expenses connected with the fiscal year are taken into account even if the cash involved has not actually been received or paid. The Financial Data Schedule included within the audit report contains all the programs of the Commission.

Fund Statements

The Financial Data Schedule reports the Commission's operations in more detail. The Commission reports all its activities using Proprietary Fund types. These funds are used to show activities that operate more like commercial enterprises. The Financial Data Schedule is organized by the government Catalogue of Financial Domestic Assistance (CFDA) numbers.

Entity-Wide Financial Highlights

The Commission was awarded and received the following Federal Assistance:

	<u>Year 2004</u>	<u>Year 2003</u>
Operating Subsidies	\$ 380,852	\$ 296,508
Capital Projects Funds	448,490	249,106
Section 8 Housing Choice Vouchers	867,342	881,457

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A) - CONTINUED

Comparison of the current year to the past and discussion of significant changes as follows:

	<u>Year 2004</u>	<u>Year 2003</u>	<u>Percentage Change</u>
Cash & cash equivalents	\$ 802,547	\$ 520,982	1.54
Investments			
(Restricted/Unrestricted)	88,474	57,500	1.54
Fixed Assets, prior to Depreciation	6,382,873	5,894,344	1.08
Total Liabilities	167,413	222,942	.75
Net Assets	4,977,003	5,232,807	.95
Revenues:			
Tenant Revenues	326,284	286,485	1.13
HUD Grants	1,696,684	1,427,071	1.18
Expenses:			
Administrative	381,650	543,407	.70
Utilities	202,199	159,096	1.27
Maintenance & Operations	217,525	290,431	.74
Protective Services	90,475	73,772	1.23
General Expenses	85,964	95,113	.90
Housing Assistance Payments	781,063	786,603	.99
Depreciation Expense	156,348	131,207	1.19

The Commission's cash position increased during the year, our investments increased; our fixed assets after depreciation increased, total liabilities decreased, and Net Assets decreased. Tenant revenues increased, grants increased, Administrative expenses decreased significantly, other expenses had unremarkable dollar changes, although some percentages appear significant.

We increased our cash position and investments due to a net profit before depreciation expense of \$347,648; our net fixed assets increased as a result of spending the Capital funds on unit renovations, back up generator, and building improvements; a further discussion of the capital assets appears later in this discussion.

Net assets decreased despite the net profit of \$191,300 due to a prior period adjustment of \$441,321. The cost of homeownership units sold over the years prior to converting to Generally Accepted Accounting Principles (GAAP) in 1999 had not been removed from the inventory of homes available for sale, therefore, Net Assets were reduced by the \$441,321.

Tenant revenues increased as a result of reducing our vacancies; HUD grants received are a result of calculations under the Performance Funding System, and Capital grants authorized and obligated during the year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A) - CONTINUED

Entity-Wide Financial Highlights - Continued

The most significant expense category to change were the Administrative expenses; a lawsuit settlement of \$100,000 in fiscal year 2003 and the related legal cost to pay off the terminated director was a one time charge resulting in a decrease in Administrative cost by over \$150,000 from 2003 to 2004. The director sued the Commission as a result of a wrongful termination; the Commission vigorously challenged the suit, but determined the settlement was more cost effective than continued legal cost.

The Commission provided the following housing for low to moderately low income families;

	<u>Year 2004</u>	<u>Year 2003</u>
Low Rent Public Housing	182	185
Section 8 Housing Choice Vouchers	60	60

The Commission sold 3 homeownership units during the fiscal year; we have three units left for sale.

General Fund Budgetary Highlights

The Commission approved an operating budget on March 20, 2003 for the fiscal year ending September 30, 2004; the budget was submitted early due to a request from HUD, normally our fiscal year budget would be approved 90 days before the year end, but due to funding difficulties HUD requested our fiscal 2004 budget be completed by April 1, 2003. The original budget was revised on May 16, 2004.

The following represents the significant changes from the original budget to the revised budget:

	<u>Year 2004</u>	<u>Year 2003</u>
General Expenses	\$ 297,350	\$ 200,640
Net (Loss)	(180,805)	(77,146)

The major change was to eliminate terminal leave payments \$100,000 originally budgeted in anticipation of additional cost as a result of the termination of the prior director; lawsuit was settled, see above discussion.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A) - CONTINUED

Entity Wide Capital Assets

The fixed assets increased \$488,529 as a result of expending the following Capital Fund Grants; 2001, \$5,232, 2002, \$195,814, 2003 \$210,511, and 2004, \$36,933. The funds were expended for the following major assets:

Office furniture and Community Space equipment	\$ 80,000
Air Makeup Unit	50,000
Back up emergency generator	110,000
Unit renovations, kitchens, lights, appliances, etc.	248,000

Commission's Position

The Commission has concentrated on reducing our vacancies and improving the condition of the Commissions building and scattered site units. To reduce vacancies we have changed the building entrance, added surveillance cameras, and renovated the units themselves. These improvements have improved our curb appeal, security, and overall marketability of our units. The results are noteworthy; as of the date of this audit, we have achieved full occupancy.

We anticipate current funding levels for operations and capital and improvements will remain consistent with past years; therefore, the Commission expects to continue to provide safe, sanitary and decent housing for the low and moderately low income families.

Questions or comments concerning this Management Discussion and Analysis may be directed to:

Yvonne Morrissey, Executive Director
1080 Terrace Street
Muskegon, Michigan 49442

FINANCIAL STATEMENTS

MUSKEGON HOUSING COMMISSION
COMBINED STATEMENT OF NET ASSETS
September 30, 2004
=====

ASSETS

Current Assets:	
Cash	
Accounts receivable-HUD other projects	\$ 802,547
Accounts receivable-dwelling rents	21,216
Mortgages receivable-current portion	7,019
Investments-unrestricted	6,407
Prepaid expenses	61,186
Due from other programs	21,507
Assets held for sale	2,757
	<u>170,500</u>
Total Current Assets	<u>1,093,139</u>
Restricted cash	<u>27,288</u>
Property, Plant, and Equipment:	
Land	219,100
Buildings	5,210,436
Equipment	323,352
Building improvements	<u>629,985</u>
	6,382,873
Less: accumulated depreciation	<u>(2,408,884)</u>
Net Property, Plant, and Equipment	<u>3,973,989</u>
Other Assets:	
Mortgages receivable-noncurrent portion	<u>50,000</u>
Total Assets	<u>\$ 5,144,416</u>

See notes to financial statements

MUSKEGON HOUSING COMMISSION
COMBINED STATEMENT OF NET ASSETS (CONTINUED)
September 30, 2004
=====

LIABILITIES and NET ASSETS

Current Liabilities:	
Accounts payable	\$ 27,750
Tenant security deposit liability	46,651
Accrued expenses	34,066
Other current liabilities	27,245
Deferred revenues	2,305
Due from other programs	<u>2,757</u>
Total Current Liabilities	140,774
Noncurrent Liabilities:	
Accrued compensated absences	<u>26,639</u>
Total Liabilities	<u>167,413</u>
Net Assets:	
Invested in capital assets	3,973,989
Unrestricted net assets	<u>1,003,014</u>
Total Net Assets	<u>4,977,003</u>
Total Liabilities and Net Assets	<u><u>\$ 5,144,416</u></u>

See notes to financial statements

MUSKEGON HOUSING COMMISSION
COMBINED STATEMENT OF ACTIVITIES
 Year Ended September 30, 2004
 =====

OPERATING REVENUES:

Dwelling rent	\$ 324,802
Non-dwelling rent	<u>1,482</u>
Total operating revenues	<u>326,284</u>

OPERATING EXPENSES:

Administration	381,650
Tenant services	3,562
Utilities	202,199
Ordinary maintenance and operation	217,525
Protective services	90,475
General expenses	85,964
Extraordinary maintenance	1,794
Housing assistance payments	781,063
Depreciation	<u>156,348</u>
Total operating expenses	<u>1,920,580</u>

Operating income(loss)	<u>(1,594,296)</u>
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NONOPERATING REVENUES:

Investment interest income	3,431
Other income	27,970
Gain on sale of assets held for sale	69,805
Capital grants	385,620
Operating grants	<u>1,311,064</u>

Total nonoperating revenues	<u>1,797,890</u>
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Net income (loss)	203,594
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Prior period adjustments, equity transfers and correction of errors	<u>(459,398)</u>
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Change in net assets	<u>(255,804)</u>
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Net assets, beginning	<u>5,232,807</u>
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Net assets, ending	<u>\$ 4,977,003</u>
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See notes to financial statements

MUSKEGON HOUSING COMMISSION
COMBINED STATEMENT OF CASH FLOWS
 Year Ended September 30, 2004
 =====

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from dwelling and nondwelling rents	\$ 327,656
Cash payments to other suppliers of goods and services	(1,453,350)
Cash payments to employees for services	<u>(307,766)</u>
Net cash (used) by operating activities	<u>(1,433,460)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Tenant security deposits	5,160
FSS escrow deposits	7,177
Operating grants	1,416,645
Other revenue	<u>41,590</u>
Net cash provided by noncapital financing activities	<u>1,470,572</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Assets held for sale	332,504
Capital grants	387,811
Payments for capital acquisitions	<u>(448,319)</u>
Net cash (used) by capital and related financing activities	<u>271,996</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Certificates of deposits purchased	(15,906)
Receipts of interest and dividends	<u>3,431</u>
Net cash (used) by investing activities	<u>(12,475)</u>

Net increase(decrease) in cash	296,633
Cash, beginning	<u>505,914</u>
Cash, ending	<u>\$ 802,547</u>

MUSKEGON HOUSING COMMISSION
COMBINED STATEMENT OF CASH FLOWS (CONTINUED)
 Year Ended September 30, 2004
 =====

**RECONCILIATION OF CASH AND CASH EQUIVALENTS
 PER STATEMENT OF CASH FLOWS TO THE BALANCE
 SHEET:**

Cash	\$ <u>802,547</u>
Cash and cash equivalents per balance sheet	\$ <u><u>802,547</u></u>

**SCHEDULE RECONCILING OPERATING INCOME
 TO NET CASH FLOW FROM OPERATING
 ACTIVITIES:**

Operating income(loss)	\$(1,594,296)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:	
Depreciation	156,348
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable-tenants	1,372
Prepaid expenses	9,196
Increase (decrease) in liabilities:	
Accounts payable	(14,641)
Accrued compensated absences	(4,790)
Accrued payments in lieu of taxes	13,597
Accrued liabilities-other	5,006
Deferred revenues	(<u>5,252</u>)
Net cash (used) by operating activities	<u><u>\$(1,433,460)</u></u>

See notes to financial statements

MUSKEGON HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
September 30, 2004
=====

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Muskegon Housing Commission (the Housing Commission) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Housing Commission's accounting policies are described below.

The Reporting Entity

The Muskegon Housing Commission is a component unit of the City of Muskegon, a Michigan home rule city. The Housing Commission is a Public Housing Agency created by the City of Muskegon on May 25, 1965, consisting of a five member board appointed by the City Manager and charged with the responsibility to provide and service housing to meet the community's needs for affordable low-income housing. These financial statements include all of the resources and activities of the Muskegon Housing Commission over which the Housing Commission exercises operational control or which have financial significance to the Housing Commission. The Housing Commission has no component units and is not responsible for any jointly governed organizations.

Grants and Other Intergovernmental Revenues

The Housing Commission has entered into contracts with the U.S. Department of Housing and Urban Development (HUD). Under Contract C-3013, the Housing Commission constructed, maintains and operates 166 units of subsidized housing in the City of Muskegon, Michigan. Under Contract C-8119, the Housing Commission manages a Housing Choice Voucher program of subsidies for 163 qualifying low-income residents for rental housing. The Housing Commission receives an annual operating subsidy determined under a performance formula for units owned by the Housing Commission and an administrative fee based on the number of households it assists under its Housing Choice Voucher program.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Housing Commission. For the most part, the effect of the interfund activity has been removed from these statements. The Housing Commission only has business-type activities, which rely to a significant extent on

MUSKEGON HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2004
=====

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-wide and Fund Financial Statements (continued)

fees and charges for support.

The Housing Commission is considered a major individual Enterprise Fund.

Fund Accounting

The accounts of the Housing Commission are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, equity, revenues, and expenses. The Housing Commission's fund structure includes only proprietary funds. Under generally accepted accounting principles, proprietary funds are grouped into two broad categories - enterprise and internal service funds. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered through user charges; or (b) where laws or regulations require that the activity's costs of providing services including capital costs (such as depreciation or debt service) be recovered with fees and charges rather than with taxes and similar revenues. All of the Housing Commission's funds are operated as enterprise type proprietary funds whereby costs of services are to be recovered through user charges or subsidies from other governmental units.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The Housing Commission's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the economic resources measurement focus, all assets and all liabilities (whether current or noncurrent) are included in the balance sheets of the individual funds. Their reported net assets are segregated into invested capital assets and unrestricted net asset components. Operating statements present increases (revenues) and decreases (expenses) in net assets. Under the accrual basis of accounting, all revenues are recorded when earned, regardless of when received, and all expenses are recorded when a liability is

MUSKEGON HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2004
=====

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (continued)

created, regardless of when paid.

In accordance with Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Muskegon Housing Commission has elected to apply only those Financial Accounting Standards Board Statements issued prior to November 30, 1989 to its proprietary funds and to the proprietary funds of its component units.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Housing Commission considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Insurance

The premiums on all major insurance policies are charged to prepaid insurance and amortized over the life of the policy.

Budgets and Budgetary Accounting

The Housing Commission is required under each of its HUD contracts to adopt an annual operating budget which must be approved by HUD. Budgetary data and comparison of actual and planned performance is reported directly to HUD based on specific program reporting requirements.

Receivables

All receivables are reported at their net value, reflecting where appropriate, by the estimated portion that is expected to be uncollectible. The Housing Commission estimates the uncollectible portion of tenant rents as a percentage of gross tenant rents using prior collection experience.

Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds. Receivables and payables arising from these transactions are classified as "due from other funds" and "due to other funds" on the statement of net assets.

MUSKEGON HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2004
=====

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed Asset Capitalization

Fixed assets with a cost to acquire or construct of \$1,000 or more are capitalized and depreciated over their estimated useful lives. Depreciation is provided on a straight-line basis using the following estimate of useful lives:

Buildings	40 years
Equipment and furnishings	5 - 10 years
Building improvements	10 - 15 years

Net Assets

The Housing Commission classifies its net assets as follows:

- a. Invested in capital assets net of related debt represents all fixed assets acquired by the Housing Commission (both pre-FY 2001 and post-Fy 2001) reduced by accumulated depreciation and related capital projects debt issued to purchase those assets.
- b. Unrestricted net assets indicate that portion of net assets which is available for use in future periods.

Operating Revenues and Expenses

The Housing Commission includes in operating revenues resources that are derived or received from exchange transactions. Resources derived principally from non-exchange transactions are excluded from operating income. Operating expenses include the cost of providing services, excluding depreciation. Depreciation, amounts expended for capital additions and amounts expended for retirement-of-debt are excluded from operating expenses. Depreciation expense is charged to invested capital assets rather than unrestricted net assets.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of management estimates. The Housing Commission uses estimates of useful lives of its fixed assets and other estimates in preparing its financial statements. Actual results may differ from the Housing Commission's estimates.

MUSKEGON HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2004
=====

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Vacation and Sick Leave

The Housing Commission allows permanent employees to accumulate the following compensated absences:

- * Vacation leave is not cumulative (unless approved in advance by the Director) and shall be taken during the calendar year following the one in which it was earned unless conditions render it impossible, all employees shall take their vacation. If unused vacation time is not taken as directed, the unused vacation time will be forfeited as of December 31 of that year and may not be carried over into the next succeeding year.
- * Sick leave: All permanent full-time employees will accumulate sick leave at the rate of one (1) day for each thirty (30) calendar days of service. Sick leave without pay may be accumulated without limit. An employee is eligible to receive fifty per cent (50%) of his/her accrued sick leave, with payment made at that employee's current rate of pay.
- * Personal leave days: Each employee is entitled to two (2) personal leave time shall be taken subject to notice at least 24 hours in advance of the date requested. Personal leave days may not be accumulated and, if not used within a calendar year, will be forfeited.

The amount of accumulated benefits at September 30, 2004, was \$35,002, and is recorded as a liability in the applicable funds.

Post Employment Benefits

The provision for pension cost is recorded on an accrual basis, and the Commission's policy is to fund pension costs as they accrue.

Income Taxes

As a component unit of a Michigan home rule city, the Housing Commission is exempt from federal and state income taxes. The Housing Commission has no unrelated business income.

MUSKEGON HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2004
=====

NOTE 2: CASH AND INVESTMENTS

The Housing Commission maintains cash and investment accounts in the Low Rent Program and Housing Choice Voucher funds. Landlord checks are processed through the Housing Choice Voucher account. All other receipts and disbursements are processed through the Low Rent Program accounts.

HUD authorizes the Housing Commission to invest in certificates of deposit, money-market funds, United States government securities, and repurchase agreements fully collateralized by United States government securities.

The Housing Commission's investments are categorized below to give an indication of the level of risk assumed by the entity at year end.

Category 1: Includes deposits that are insured, registered, or for which the collateral securities are held by the Housing Commission or its agent in the Housing Commission's name. This includes FDIC or equivalent insurance coverage.

Category 2: Includes deposits for which the collateral securities are held by the dealer's trust department or agent in the Housing Commission's name.

Category 3: Includes all uninsured and uncollateralized deposits.

For all deposits shown below, the market value at the balance sheet date is substantially the same as the carrying value. The difference between the bank balance and carrying value is due to outstanding checks and/or deposits in transit. At various times during the year, the Housing Commission's deposits may have been higher than the September 30, 2004, balances detailed below. This means that the Housing Commission's risk and exposure could have been higher at these times. The Housing Commission had no significant type of deposits during the year not included below.

MUSKEGON HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2004
=====

NOTE 2: CASH AND INVESTMENTS (Continued)

Depository Balances by Category					
<u>Depository</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>Total</u>	<u>Carrying Value</u>
National City Bank	\$200,000	\$564,355	\$	\$764,355	\$732,970
Huntington National Bank	<u>160,668</u>			<u>160,668</u>	<u>157,949</u>
Total Deposits	<u>\$360,668</u>	<u>\$564,355</u>	<u>\$</u>	<u>\$925,023</u>	890,919
Petty cash					<u>102</u>
					<u>\$891,021</u>
Reconciliation to Cash on Balance Sheet					
Cash					
Unrestricted investments					\$802,547
Restricted investments					61,186
					<u>27,288</u>
Total					<u>\$891,021</u>

NOTE 3: RECEIVABLES AND PAYABLES

Tenant Accounts Receivable

Tenant accounts receivable are recorded at gross amount and reduced by the estimated amount uncollectible. At September 30, 2004, the receivables were \$7,019 with \$-0- estimated as uncollectible. Bad debt expense was \$6,462.

Accounts Receivable - HUD

Amounts due from HUD represents funding due the Housing Commission for actual expenses for the programs financed. Balances at September 30, 2004, were as follows:

Housing Choice Voucher Program	<u>\$ 21,216</u>
--------------------------------	------------------

MUSKEGON HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2004
=====

NOTE 3: RECEIVABLES AND PAYABLES (Continued)

Inter-fund Receivables, Payables, and Transfers

Interfund receivables and payables are recorded as "due from other programs" and "due to other programs".

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Low Rent Program	\$ 2,757	Housing Choice Voucher Program	\$ 2,757
	<u>\$ 2,757</u>		<u>\$ 2,757</u>

The capital fund program transferred \$62,870 in operating funds to the Low Rent Program during the fiscal year ended September 30, 2004.

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2004 was as follows:

	<u>Balance 09/30/03</u>	<u>Additions/Retirements/ Transfers</u>	<u>Balance 09/30/04</u>
Low Rent Program			
Land	\$ 219,100	\$	\$ 219,100
Buildings	4,972,793	237,643	5,210,436
Furniture, equip. & machinery - dwellings	99,277		
Furniture, equip. & machinery - administration		56,345	42,932
Other assets	151,131	119,044	
	<u>874,520</u>	<u>874,520</u>	<u>270,175</u>
	6,316,821	<u>\$ 356,687</u>	<u>\$ 930,865</u>
Less accumulated depreciation	<u>(2,242,291)</u>	<u>\$ (156,348)</u>	<u>(2,398,639)</u>
Total	<u>\$4,074,530</u>		<u>\$3,344,004</u>

Assets held for sale of \$874,520 was reclassified to current assets and there was an equity transfer of \$237,643 from the Capital Fund Program.

MUSKEGON HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2004
=====

NOTE 4: CAPITAL ASSETS (Continued)

	<u>Balance</u> <u>09/30/03</u>	<u>Additions/Retirements/</u> <u>Transfers Transfers</u>	<u>Balance</u> <u>09/30/04</u>
Housing Choice Voucher Program			
Furniture, equip. & machinery - dwellings	\$ 10,245	\$	\$ 10,245
Less accumulated depreciation	(10,245)		(10,245)
Total	<u>\$</u>		<u>\$</u>
Capital Fund Program			
Building improvements	<u>\$ 441,798</u>	<u>\$ 425,830</u>	<u>\$ 237,643</u>
			<u>\$ 629,985</u>
Combined Totals			<u>\$3,973,989</u>

NOTE 5: CONTRIBUTED CAPITAL

Changes in invested in capital assets (formerly contributed capital) in the enterprise fund type for the year ended September 30, 2004, consist of the following:

	<u>Invested in</u> <u>Capital Assets</u>
Balance, beginning	\$ 8,322,304
Investment in fixed assets, net of depreciation paid for from operations net of depreciation, not included in contributed capital	<u>(4,348,315)</u>
Balance, ending	<u>\$ 3,973,989</u>

MUSKEGON HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2004
=====

NOTE 6: SEGMENT INFORMATION

The Housing Commission maintains one Enterprise Fund that includes four separate programs which provide housing assistance and grant programs. Segment information for the year ended September 30, 2004, was as follows:

	<u>Low Rent Program</u>	<u>Capital Fund Program</u>	<u>Housing Choice Vouchers</u>
Condensed Statement of Activities:			
Dwelling and nondwelling rents	\$ 326,284	\$	\$
Depreciation expense	(156,348)		
Other operating expenses	(875,945)		(888,287)
Operating(loss)	(706,009)		(888,287)
Nonoperating revenues:			
Operating transfers	62,870	(62,870)	
Investment earnings	3,008		423
Other income	27,970		
Gain on sale of assets	69,805		
Capital grants		385,620	
Operating grants	<u>380,852</u>	<u>62,870</u>	<u>867,342</u>
Net income (loss)	(161,504)	385,620	(20,522)
Prior period adjustments, equity transfers and correction of errors	<u>(261,965)</u>	<u>(197,433)</u>	
Change in net assets	(423,469)	188,187	(20,522)
Beginning net assets	<u>4,649,769</u>	<u>441,798</u>	<u>141,240</u>
Ending net assets	<u><u>\$ 4,226,300</u></u>	<u><u>\$ 629,985</u></u>	<u><u>\$ 120,718</u></u>

MUSKEGON HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2004
=====

NOTE 6: SEGMENT INFORMATION (Continued)

	<u>Low Rent Program</u>	<u>Capital Fund Program</u>	<u>Housing Choice Vouchers</u>
Condensed Statement of Cash Flows			
Net cash provided (used) by:			
Operating activities	\$ (550,179)	\$	\$ (883,281)
Nonoperating financing activities	552,258	(2,191)	920,505
Capital and related financing activities	269,805	2,191	
Investing activities	(678)	<u> </u>	<u>(11,797)</u>
Net increase (decrease)	271,206		25,427
Cash, beginning	<u>403,654</u>	<u> </u>	<u>102,260</u>
Cash, ending	<u>\$ 674,860</u>	<u>\$</u>	<u>\$ 127,687</u>

NOTE 7: OTHER INFORMATION

A. Pension Plan

The Muskegon Housing Commission participates in a pension plan, the Municipal Employees' Retirement System, (MERS). MERS is a Defined Benefit Program which operates within the Michigan Department of Management and Budget, Bureau of Retirement Systems. The pension covers all eligible full-time employees and requires a minimum contribution by the employee. At December 31, 2003, the date of the last completed actuarial evaluation, the Housing Commission's actuarial accrued liability for retirement benefits is \$196,078. The valuation assets available to meet this obligation are \$153,753. There is an unfunded balance of \$42,325 as of December 31, 2003. The required employer contribution is \$16,920 to meet the normal cost and the unfunded accrued liability. The minimum required monthly employer contribution as a percentage of payroll is 7.83% and 1.21% for general employees. There are five (9) active members, no vested former members, and no retirees and beneficiaries. Statistical information concerning the plan can be obtained from MERS, which is contained in their annual report.

MUSKEGON HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2004
=====

NOTE 7: OTHER INFORMATION (Continued)

B. Current Vulnerability Due to Certain Concentrations

The Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice to inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

C. Risk Management and Litigation

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which it obtains coverage from commercial companies. The Housing Commission has had no settled claims resulting from these risks that exceed their commercial coverage in the current year or the three prior fiscal years.

D. Implementation of New Accounting Standard

As of and for the year ended September 30, 2004, the Housing Commission implemented GASB Statement Number 34 - *Basic Financial Statements - and Management's Discussion and Analysis - State and Local Governments*. The more significant changes required by the standard include a Management Discussion and Analysis; government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting; fund financial statements, consisting of a series of statements that focus on a government's major funds; and schedules to reconcile the fund financial statements to the government-wide financial statements.

MUSKEGON HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2004
=====

NOTE 7: OTHER INFORMATION (Continued)

E. Prior Period Adjustments, Equity Transfers and
Correction of Errors

Low Rent Program

Equity transfer from 2000 capital fund	\$ 237,643
To reduce second mortgages receivable	(58,287)
To reduce the assets held for sale	<u>(441,321)</u>
	<u>\$ (261,965)</u>

Capital Fund Program

2000 capital fund equity transfer to PHA	\$ (237,643)
Other adjustments	<u>40,210</u>
	<u>\$ (197,433)</u>

SUPPLEMENTARY INFORMATION

MUSKEGON HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS
 September 30, 2004
 =====

C-3013	Capital
Low Rent	Fund
Program	Program
<u>14.850</u>	<u>14.872</u>

ASSETS

Current assets:		
Cash	\$ 674,860	\$
Accounts receivable-HUD other projects		
Accounts receivable-dwelling rents	7,019	
Mortgages receivable-current	6,407	
Investments-unrestricted	61,186	
Prepaid expenses	21,507	
Due from other programs	2,757	
Assets held for sale	<u>170,500</u>	
Total current assets	<u>944,236</u>	
Restricted cash		
Property, plant, and equipment:		
Land	219,100	
Buildings	5,210,436	
Equipment	313,107	
Building improvements	<u>629,985</u>	
Less accumulated depreciation	5,742,643	<u>629,985</u>
	<u>(2,398,639)</u>	
Net property, plant and equipment	<u>3,344,004</u>	<u>629,985</u>
Other assets:		
Mortgages receivable-noncurrent	<u>50,000</u>	
Total Assets	<u><u>\$4,338,240</u></u>	<u><u>\$ 629,985</u></u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$ 127,687	\$ 802,547
21,216	21,216
	7,019
	6,407
	61,186
	21,507
	2,757
	<u>170,500</u>
<u>148,903</u>	<u>1,093,139</u>
<u>27,288</u>	<u>27,288</u>
	219,100
10,245	5,210,436
	323,352
	<u>629,985</u>
<u>10,245</u>	6,382,873
(<u>10,245</u>)	<u>(2,408,884)</u>
	<u>3,973,989</u>
	<u>50,000</u>
<u>\$ 176,191</u>	<u>\$5,144,416</u>

MUSKEGON HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS (CONTINUED)
 September 30, 2004
 =====

	C-3013 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
LIABILITIES and NET ASSETS		
Current liabilities:		
Accounts payable	\$ 27,750	\$
Tenant security deposit liability	46,651	
Accrued expenses	8,595	
Other current liabilities		
Deferred revenues	2,305	
Due from other programs		
Total current liabilities	<u>85,301</u>	
Noncurrent liabilities:		
Accrued compensated absences	<u>26,639</u>	
Total liabilities	<u>111,940</u>	
Net Assets:		
Invested in capital assets	3,344,004	629,985
Unrestricted net assets	<u>882,296</u>	
Total net assets	<u>4,226,300</u>	<u>629,985</u>
Total Liabilities and Net Assets	<u>\$4,338,240</u>	<u>\$ 629,985</u>

Housing
Choice
Vouchers
14.871

Totals

\$

25,471
27,245

2,757

55,473

55,473

120,718

120,718

\$ 176,191

\$ 27,750

46,651

34,066

27,245

2,305

2,757

140,774

26,639

167,413

3,973,989

1,003,014

4,977,003

\$5,144,416

MUSKEGON HOUSING COMMISSION
COMBINING STATEMENT OF ACTIVITIES
 Year Ended September 30, 2004
 =====

	C-3013 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
OPERATING REVENUES:		
Dwelling rent	\$ 324,802	\$
Nondwelling rent	<u>1,482</u>	
Total operating revenues	<u>326,284</u>	
OPERATING EXPENSES:		
Administration	274,426	
Tenant services	3,562	
Utilities	202,199	
Ordinary maintenance and operation	217,525	
Protective services	90,475	
General expenses	85,964	
Extraordinary maintenance	1,794	
Housing assistance payments		
Depreciation	<u>156,348</u>	
Total operating expenses	<u>1,032,293</u>	
Operating income (loss)	<u>(706,009)</u>	
NONOPERATING REVENUES AND (EXPENSES):		
Operating transfers in (out)	62,870	(62,870)
Investment interest income	3,008	
Other income	27,970	
Gain on sale of assets held for sale	69,805	
Capital grants		385,620
Operating grants	<u>380,852</u>	<u>62,870</u>
Total nonoperating revenues (expenses)	<u>544,505</u>	<u>385,620</u>
Net income (loss)	(161,504)	385,620
Prior period adjustments, equity transfers and correction of errors	<u>(261,965)</u>	<u>(197,433)</u>
Change in net assets	(423,469)	188,187
Net assets, beginning	<u>4,649,769</u>	<u>441,798</u>
Net assets, ending	<u>\$4,226,300</u>	<u>\$629,985</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$	\$
	324,802
	<u>1,482</u>
	<u>326,284</u>
107,224	381,650
	3,562
	202,199
	217,525
	90,475
	85,964
	1,794
781,063	781,063
	<u>156,348</u>
<u>888,287</u>	<u>1,920,580</u>
<u>(888,287)</u>	<u>(1,594,296)</u>
423	3,431
	27,970
	69,805
	385,620
<u>867,342</u>	<u>1,311,064</u>
<u>867,765</u>	<u>1,797,890</u>
(20,522)	203,594
	<u>(459,398)</u>
(20,522)	(255,804)
<u>141,240</u>	<u>5,232,807</u>
<u>\$ 120,718</u>	<u>\$ 4,977,003</u>

MUSKEGON HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS
 Year Ended September 30, 2004
 =====

	C-3013 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from dwelling and nondwelling rents	\$ 327,656	\$
Cash payments to other suppliers of goods and services	(647,240)	
Cash payments to employees for services	(230,595)	
Cash payments for in lieu of taxes		
Net cash (used) by operating activities	<u>(550,179)</u>	
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Tenant security deposits	5,160	
FSS escrow deposits		
Due from/to other funds	61,786	(2,191)
Operating transfers in (out)	62,870	(62,870)
Operating grants	380,852	62,870
Other revenue	<u>41,590</u>	
Net cash provided by noncapital financing activities	<u>552,258</u>	<u>(2,191)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Assets held for sale	332,504	
Capital grants		387,811
Payments for capital acquisitions	<u>(62,699)</u>	<u>(385,620)</u>
Net cash provided (used) by capital and related financing activities	<u>269,805</u>	<u>2,191</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Certificates of deposits purchased	(3,686)	
Receipts of interest and dividends	<u>3,008</u>	
Net cash provided by investing activities	<u>(678)</u>	
Net increase(decrease) in cash	271,206	
Cash, beginning	<u>403,654</u>	
Cash, ending	<u><u>\$ 674,860</u></u>	<u><u>\$</u></u>

Housing Choice Vouchers 14.871	Totals
\$	\$ 327,656
(806,110)	(1,453,350)
(77,171)	(307,766)
<u>(883,281)</u>	<u>(1,433,460)</u>
	5,160
7,177	7,177
(59,595)	
972,923	1,416,645
<u>920,505</u>	<u>41,590</u>
	1,470,572
	332,504
	387,811
<u></u>	<u>(448,319)</u>
	271,996
(12,220)	(15,906)
423	3,431
<u>(11,797)</u>	<u>(12,475)</u>
25,427	296,633
<u>102,260</u>	<u>505,914</u>
<u>\$ 127,687</u>	<u>\$ 802,547</u>

MUSKEGON HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
 Year Ended September 30, 2004
 =====

C-3013	Capital
Low Rent	Fund
Program	Program
<u>14.850</u>	<u>14.872</u>

**RECONCILIATION OF CASH AND CASH
 EQUIVALENTS PER STATEMENT OF CASH
 FLOWS TO THE BALANCE SHEET:**

Cash	\$ 674,860	\$ _____
Cash and cash equivalents per balance sheet	<u>\$ 674,860</u>	<u>\$ _____</u>

**SCHEDULE RECONCILING OPERATING INCOME
 TO NET CASH FLOW FROM OPERATING
 ACTIVITIES:**

Operating income(loss)	\$(706,009)	\$
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:		
Depreciation	156,348	
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable-tenants	1,372	
Prepaid expenses	9,196	
Increase (decrease) in liabilities:		
Accounts payable	(14,641)	
Accrued compensated absences	(4,790)	
Accrued payments in lieu of taxes	13,597	
Accrued liabilities-other		
Deferred revenues	<u>(5,252)</u>	
Net cash (used) by operating activities	<u>\$(550,179)</u>	<u>\$ _____</u>

Housing
Choice
Vouchers

14.871

Totals

\$ 127,687

\$ 802,547

\$ 127,687

\$ 802,547

\$ (888,287)

\$ (1,594,296)

156,348

1,372

9,196

(14,641)

(4,790)

5,006

13,597

5,006

(5,252)

\$ (883,281)

\$ (1,433,460)

MUSKEGON HOUSING COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS
Year Ended September 30, 2004
=====

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year	<u>Federal Grantor</u>	<u>CFDA No.</u>	<u>Expenditures</u>
	<u>U.S. Department of HUD</u>		
	<u>Public and Indian Housing Nonmajor - Direct Program</u>		
2004	Low Rent Public Housing	14.850	\$ 380,852
	<u>Public and Indian Housing Nonmajor - Direct Program</u>		
2004	Capital Fund Program	14.872	448,490
	<u>Low Income Public Housing Major - Direct Program</u>		
2004	Housing Choice Vouchers	14.871	<u>867,342</u>
	Total		<u>\$1,696,684</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

NOTE 1: Significant Accounting Policies

The schedule of federal awards has been prepared on the accrual basis of accounting.

CFDA = Catalog of Federal Domestic Assistance

MUSKEGON HOUSING COMMISSION
FINANCIAL DATA SCHEDULE
 Year Ended September 30, 2004
 =====

FDS Line Item No.		C-3013 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	ASSETS		
	Current Assets:		
	Cash:		
111	Cash-unrestricted	\$ 674,860	\$
100	Total cash	<u>674,860</u>	
	Receivables:		
122	A/R-HUD other projects		
126	A/R-tenants-dwelling rents	7,019	
127	Mortgages receivable-current	<u>6,407</u>	
120	Total receivables, net	<u>13,426</u>	
	Current Investments:		
131	Investments-unrestricted	61,186	
132	Investments-restricted		
	Total current investments	<u>61,186</u>	
	Other Current Assets:		
142	Prepaid expenses and other assets	21,507	
144	Interprogram due from	2,757	
145	Assets held for sale	<u>170,500</u>	
	Total other current assets	<u>194,764</u>	
150	Total current assets	<u>944,236</u>	
	Noncurrent Assets:		
	Fixed Assets:		
161	Land	219,100	
162	Buildings	5,210,436	
163	Furn, equip & mach-dwellings	42,932	
164	Furn, equip & mach-admin.	270,175	
165	Building improvements		629,985
166	Accumulated depreciation	<u>(2,398,639)</u>	
160	Total fixed assets, net of accumulated depreciation	3,344,004	629,985
	Other Assets:		
171	Mortgages receivable-noncurrent	<u>50,000</u>	
180	Total noncurrent assets	<u>3,394,004</u>	629,985
190	Total Assets	<u>\$ 4,338,240</u>	<u>\$629,985</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$ 127,687	\$ 802,547
<u>127,687</u>	<u>802,547</u>
21,216	21,216
	7,019
	<u>6,407</u>
<u>21,216</u>	<u>34,642</u>
	61,186
<u>27,288</u>	<u>27,288</u>
<u>27,288</u>	<u>88,474</u>
	21,507
	2,757
	<u>170,500</u>
	<u>194,764</u>
<u>176,191</u>	<u>1,120,427</u>
	219,100
	5,210,436
10,245	53,177
	270,175
	629,985
<u>(10,245)</u>	<u>(2,408,884)</u>
	3,973,989
	<u>50,000</u>
	<u>4,023,989</u>
<u>\$ 176,191</u>	<u>\$ 5,144,416</u>

MUSKEGON HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended September 30, 2004
 =====

FDS Line Item No.		C-3013 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
LIABILITIES and NET ASSETS			
	Liabilities:		
	Current Liabilities:		
312	Accounts payable-<=90 days	\$ 2,050	\$
322	Accrued compensated absences	2,960	
333	Accounts payable-other government	25,700	
341	Tenant security deposits	46,651	
342	Deferred revenues	2,305	
345	Other current liabilities		
346	Accrued liabilities-other	5,635	
347	Interprogram due to		
		<u> </u>	<u> </u>
310	Total current liabilities	<u>85,301</u>	<u> </u>
	Noncurrent Liabilities:		
354	Accrued compensated absences	<u>26,639</u>	<u> </u>
350	Total noncurrent liabilities	<u>26,639</u>	<u> </u>
300	Total liabilities	<u>111,940</u>	<u> </u>
	Net Assets:		
508.1	Invested in capital assets	<u>3,344,004</u>	<u>629,985</u>
508	Total invested in capital assets	3,344,004	629,985
512.1	Unrestricted net assets	<u>882,296</u>	<u> </u>
513	Total Net Assets	<u>4,226,300</u>	<u>629,985</u>
600	Total Liabilities and Net Assets	<u>\$ 4,338,240</u>	<u>\$629,985</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$ 5,403	\$ 2,050
	8,363
	25,700
	46,651
	2,305
27,245	27,245
20,068	25,703
<u>2,757</u>	<u>2,757</u>
<u>55,473</u>	<u>140,774</u>
	<u>26,639</u>
	<u>26,639</u>
<u>55,473</u>	<u>167,413</u>
	<u>3,973,989</u>
	3,973,989
<u>120,718</u>	<u>1,003,014</u>
<u>120,718</u>	<u>4,977,003</u>
<u>\$ 176,191</u>	<u>\$ 5,144,416</u>

MUSKEGON HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
Year Ended September 30, 2004
=====

FDS Line Item No.		C-3013 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Revenue:		
703	Net tenant rental revenue	\$ 324,802	\$
704	Tenant revenue-other	<u>1,482</u>	
705	Total tenant revenue	326,284	
706	HUD PHA grants	380,852	62,870
706.1	Capital grants		385,620
711	Investment income-unrestricted	3,008	
715	Other revenue	27,970	
716	Gain/loss on sale of fixed assets	<u>69,805</u>	
700	Total revenue	<u>807,919</u>	<u>448,490</u>
	Expenses:		
	Administrative:		
911	Administrative salaries	148,544	
912	Auditing fees	2,127	
914	Compensated absences	(4,790)	
915	Employee benefit contributions-adm.	49,834	
916	Other operating-administrative	78,711	
	Tenant Services:		
924	Tenant services-other	3,562	
	Utilities:		
931	Water	35,815	
932	Electricity	102,773	
933	Gas	54,853	
938	Other utilities expense	8,758	
	Ordinary maintenance and operation:		
941	Ordinary maint & oper-labor	90,127	
942	Ordinary maint & oper-mat'ls & other	50,019	
943	Ordinary maint & oper-contract costs	45,162	
945	Employee benefit contributions	32,217	
952	Protective services-other contract costs	90,475	
	General expenses:		
961	Insurance premiums	65,504	
962	Other general expenses	401	
963	Payments in lieu of taxes	13,597	
964	Bad debt - tenant rents	<u>6,462</u>	
969	Total operating expenses	<u>874,151</u>	
970	Excess operating revenue over operating expenses	<u>(66,232)</u>	<u>448,490</u>

Housing Choice Vouchers 14.871	Totals
\$	\$ 324,802
	1,482
	326,284
867,342	1,311,064
	385,620
423	3,431
	27,970
	69,805
867,765	2,124,174
34,527	183,071
1,873	4,000
	(4,790)
42,644	92,478
28,180	106,891
	3,562
	35,815
	102,773
	54,853
	8,758
	90,127
	50,019
	45,162
	32,217
	90,475
	65,504
	401
	13,597
	6,462
107,224	981,375
760,541	1,142,799

MUSKEGON HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended September 30, 2004
 =====

FDS Line Item No.		C-3013 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Expenses continued:		
	Other expenses:		
971	Extraordinary maintenance	1,794	
973	Housing assistance payments		
974	Depreciation expense	<u>156,348</u>	
	Total other expenses	<u>158,142</u>	
900	Total expenses	<u>1,032,293</u>	
	Excess (deficiency) of operating revenue over(under) expenses before other financing sources (uses)	(224,374)	448,490
	Other Financing Sources(Uses):		
1001	Operating transfers in (out)	<u>62,870</u>	(62,870)
1000	Excess (deficiency) of operating revenue over(under) expenses	(161,504)	385,620
1103	Beginning Net Assets	4,649,769	441,798
1104	Prior period adjustments, equity transfers and correction of errors	<u>(261,965)</u>	<u>(197,433)</u>
	Ending Net Assets	<u>\$ 4,226,300</u>	<u>\$629,985</u>

Housing
Choice
Vouchers
14.871

Totals

781,063

1,794

781,063

156,348

781,063

939,205

888,287

1,920,580

(20,522)

203,594

(20,522)

203,594

141,240

5,232,807

(459,398)

\$ 120,718

\$ 4,977,003

Barry E. Gaudette, CPA, P.C.

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**Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance
with Government Auditing Standards**

Board of Housing Commissioners
Muskegon Housing Commission
Muskegon, Michigan

We have audited the financial statements of the Muskegon Housing Commission, Michigan, (Housing Commission) as of and for the year ended September 30, 2004, and have issued our report thereon dated February 24, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Housing Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk

Report on Compliance and on Internal Control
In Accordance with Government Auditing Standard
Muskegon Housing Commission
Page Two

Internal Control Over Financial Reporting - Continued

that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. We have noted other matters involving the internal control over financial reporting that we have reported to management of the Housing Commission in a separate letter dated February 24, 2005.

This report is intended solely for the information and use of the audit committee, Board of Housing Commissioners, management, others within the organization, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Sandy E. Handlett, CPA, PC

February 24, 2005

Barry E. Gaudette, CPA, P.C.

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**Report on Compliance with Requirements
Applicable To Each Major Program and
Internal Control over Compliance
in Accordance with OMB Circular A-133**

Board of Housing Commissioners
Muskegon Housing Commission
Muskegon, Michigan

Compliance

We have audited the compliance of the Muskegon Housing Commission, Michigan (Housing Commission) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2004. The Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Housing Commission's management. Our responsibility is to express an opinion on the Housing Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Housing Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Housing Commission's compliance with those requirements.

Report on Compliance and Internal Control
Over Compliance in Accordance With
OMB Circular A-133
Muskegon Housing Commission
Page Two

Compliance (continued)

In our opinion, Housing Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2004.

Internal Control Over Compliance

The management of the Housing Commission is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. We have noted other matters involving the internal control over financial reporting that we have reported to management of the Housing Commission in a separate letter dated February 24, 2005.

This report is intended solely for the information and use of the audit committee, Board of Housing Commissioners, management, others within the organization, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Sary E. Vandette, CPA, PC

February 24, 2005

MUSKEGON HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
September 30, 2004
=====

A. Summary of Audit Results

Financial Statements

1. Type of Auditor's Report issued: Unqualified
2. Internal control over financial reporting:
 - a. Material weakness identified No
 - b. Reportable condition identified that is not a material weakness No
3. Noncompliance material to financial statements: No

Federal Awards

1. Internal control over major programs:
 - a. Material weakness identified No
 - b. Reportable condition that is not a material weakness No
2. Type of auditor's report issued on compliance for major programs Unqualified
3. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133 No
4. Identification of major programs:

<u>CFDA Number</u>	<u>Federal Program</u>	<u>Amount Expended</u>	<u>Major Program</u>	<u>Compliance Requirement</u>	<u>Questioned Costs</u>	<u>Audit Finding</u>
14.850	Low Rent Public Housing	\$ 380,852	No	O	N/A	N/A
14.872	Capital Fund Program	448,490	No	O	N/A	N/A
14.871	Housing Choice Vouchers	<u>867,342</u>	Yes	O	N/A	N/A
	Total	<u>\$1,696,684</u>				

5. Dollar threshold used to distinguish between type A and type B programs \$300,000
6. Auditee qualified as low-risk auditee? Yes

MUSKEGON HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2004
=====

B.	Financial Statement Findings	None
C.	Federal Award Findings and Questioned Costs	None

MUSKEGON HOUSING COMMISSION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
September 30, 2004
=====

NONE

MUSKEGON HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
 SEPTEMBER 30, 2004
 =====

<u>Account Number #</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
LOW RENT PROGRAM			
	(1)		
4570	Collection losses	\$ 6,462.25	
1122	A/R-tenants		\$ 6,462.25
	To write off vacated TAR.		
	(2)		
1211	Prepaid insurance	18,757.08	
451002	Insurance premiums		14,008.83
4540	Employee benefits		4,748.25
	To adjust to actual.		
	(3)		
6010	Prior period adjustment	58,287.13	
112801	A/R-second mortgages		58,287.13
	To adjust to actual amounts remaining to collect.		
	(4)		
6010	Prior period adjustment	441,321.00	
1606	Assets held for sale		441,321.00
	To adjust to three (3) houses left to sell. This is an estimated amount.		
	(5)		
4540	Employee benefits	1,603.00	
451002	Insurance premiums		1,603.00
	To reclassify workmen's compensation.		

MUSKEGON HOUSING COMMISSION
INDEPENDENT AUDITORS' REPORTS
ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE/BOARD OF COMMISSIONERS
AND
MANAGEMENT ADVISORY COMMENTS

SEPTEMBER 30, 2004

MUSKEGON HOUSING COMMISSION
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SEPTEMBER 30, 2004

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Management Advisory Comments	4
Adjusting Journal Entries	5

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**INDEPENDENT AUDITORS' REPORT ON
COMMUNICATIONS WITH THE AUDIT COMMITTEE/
BOARD OF COMMISSIONERS**

To the Board of Commissioners
Muskegon Housing Commission

We have audited the financial statements of the Muskegon Housing Commission ("Housing Commission") as of and for the year ended September 30, 2004, and have issued our report, thereon, dated February 24, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we communicate certain matters to your audit committee or its equivalent. These communications are reported in the following paragraphs.

Auditors' Responsibilities Under Auditing Standards Generally Accepted in the United States of America - In planning and performing our audit of the financial statements, we considered your internal control in order to determine our auditing procedures for purposes of expressing our opinion on the financial statements and not to provide assurance on your internal control. Also, an audit conducted under auditing standards generally accepted in the United States of America is designed to obtain a reasonable, rather than absolute, assurance about the financial statements.

Significant Accounting Policies - The significant accounting policies used in the preparation of your financial statements are discussed in Note 1 to the financial statements. There were five audit adjusting journal entries, but no controversial accounting issues.

Management Judgments and Accounting Estimates - Significant management judgments and accounting estimates are disclosed in the notes to the financial statements.

Other Information in Documents Containing Audited Financial Statements - All the information included in the financial statements document has been audited and our responsibilities are addressed in the Independent Auditors' Report.

**INDEPENDENT AUDITORS' REPORT ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE - CONTINUED**

Audit Adjustments - For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Housing Commission's financial reporting process (that is, cause future financial statements to be materially misstated). The attached audit adjustments, in our judgment, indicate matters that could have a significant effect on the Housing Commission's financial reporting process (see adjusting entries on page 5).

Disagreements With Management - For purposes of this letter, professional accounting standards define disagreement with management as a matter concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the audit.

Consultations With Other Accountants - To our knowledge, management has not consulted with other accountants regarding auditing and accounting matters.

Major Issues Discussed With Management Prior to Retention - There was no discussions regarding the application of accounting principles or auditing standards with management prior to our retention as your auditor.

Difficulties Encountered in Performing the Audit - There were no difficulties encountered in performing the audit. The staff was very cooperative and helpful.

This report is intended solely for the information and use of the audit committee or its equivalent and management and is not intended to be and should not be used by anyone other than these specified parties.

We shall be pleased to discuss any of the matters referred to in this letter. Should you desire more information on the above communications, we would welcome the opportunity to discuss them with you.

Bary E. Tardiff, CPA, PC

February 24, 2005

Barry E. Gaudette, CPA, P.C.

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**INDEPENDENT AUDITORS' REPORT ON
MANAGEMENT ADVISORY COMMENTS**

To the Board of Commissioners
Muskegon Housing Commission

We have audited the financial statements of the Muskegon Housing Commission ("Housing Commission") as of and for the year ended September 30, 2004, and have issued our report, thereon, dated February 24, 2005. We have also issued compliance reports and reports on the internal control in accordance with *Government Auditing Standards*. These reports disclosed no material instances of noncompliance, weaknesses and reportable conditions.

Other matters involving the Housing Commission's operations and internal control, which came to our attention during the audit, are reported on the following pages as management advisory comments.

We would like to take this opportunity to acknowledge the many courtesies extended to us by the Housing Commission's personnel during the course of our work.

We shall be pleased to discuss any of the matters referred to in this letter. Should you desire assistance in implementing any of the following suggestions, we would welcome the opportunity of assisting you in these matters.

Barry E. Gaudette, CPA, PC

February 24, 2005

MUSKEGON HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS
September 30, 2004

=====

Certificate of Deposit Policy

The Housing Commission upon our recommendation, passed "Resolution 2005-2 during the January 19, 2005 board meeting. The resolution states that action on Certificates of Deposit held by the Muskegon Housing Commission must have Board approval and certificates not renewed upon maturity will be deposited into the Housing Commission's General Fund Account.

MUSKEGON HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
September 30, 2004
=====

<u>Account #</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
LOW RENT PROGRAM			
	(1)		
4570	Collection losses	\$ 6,462.25	
1409	A/R-tenants		\$ 6,462.25
	To write off vacated TAR.		
	(2)		
1211	Prepaid insurance	18,757.08	
451002	Insurance premiums		14,008.83
4540	Employee benefits		4,748.25
	To adjust to actual.		
	(3)		
6010	Prior period adjustment	58,287.13	
112801	A/R-second mortgages		58,287.13
	To adjust to actual amounts remaining to collect.		
	(4)		
6010	Prior period adjustment	441,321.00	
1606	Assets held for sale		441,321.00
	To adjust to three (3) houses left to sell. This is an estimated amount.		
	(5)		
4540	Employee benefits	1,603.00	
451002	Insurance premiums		1,603.00
	To reclassify workmen's compensation.		